

CITY OF COLFAX, IOWA

Independent Auditors' Reports  
Basic Financial Statements and  
Supplemental Information  
and Findings

June 30, 2006

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City of Colfax, Iowa  
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Keith Warrick	Mayor	January, 2008
Kent Deal	Council Member	January, 2008
Bob Brown	Council Member	January, 2008
Bryan Poulter	Council Member	January, 2008
Elizabeth Wheeler	Council Member	January, 2008
David Annis	Council Member	January, 2006
Kathryn Gullion	Council Member	January, 2010
Kathy Mathews	City Clerk	Indefinite
Larry Opfer	Treasurer	Indefinite
Ken Walker	City Attorney	Indefinite

# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS  
PRIVATE COMPANIES PRACTICE SECTION  
IOWA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of Colfax

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports as dated below on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Colfax's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statement for the years ended June 30, 2005 and 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

December 11, 2006

*Pollard and Company P.C.*

## CITY OF COLFAX MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Colfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements and the accompanying notes, which follow.

### **FINANCIAL HIGHLIGHTS**

- The City's receipts totaled \$2,364,804 for the year ended June 30, 2006, a 10% increase from 2005.
- Disbursements for the year totaled \$2,137,627 which is a 4% increase from 2005.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the city as a whole and presents an overall view of the City's finances.

Notes to financial statements provide additional information essential to full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets are divided into two finds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and sanitation. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Government funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The major governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax, Local Option Sales Tax, Hotel/Motel Tax Fund, and Employee Benefits Fund; 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Transfers In and Out are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds are used to report business type activities. The City maintains three funds to provide separate information for the water, sewer, and sanitation funds considering these to be major funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing \$227,177 year ended June 30, 2006.

The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service	966,613	241,501
Operating grants, contributions and restricted interest	186,122	196,590
Capital grants, contributions and unrestricted interest	14,512	3,000
Bond proceeds	232,500	0
General receipts:		
Property tax	545,214	574,578
Restricted interest on investments-water sinking		181,448
Other general receipts	351,557	5,579
Hotel/motel and local option taxes	68,286	0
Total receipts	2,364,804	1,290,443
Disbursements:		
Water	275,193	73,107
Sewer	408,923	385,172
Sanitation	121,465	113,738
Total business type disbursements	805,581	672,017
Public safety disbursements	376,397	0
Public works disbursements	326,697	0
Culture and recreation	180,711	0
Community and economic development	3,000	0
General government	272,783	0
Debt service	172,458	0
Total governmental activities	1,332,046	0
Total	2,137,627	0
Cash basis net assets beginning of year	1,237,442	1,222,072
Cash basis net assets end of year	1,464,619	1,410,527

## INDIVIDUAL MAJOR GOVERNMENT FUND ANALYSIS

The following are the major reasons for the changes in fund balances of certain major funds from the prior year.

- The General Fund has a deficit balance of \$<200,195> which will be reduced by transfers from the Proprietary fund operating accounts.
- Employee Benefit Fund cash balance has a deficit of \$<19,067>. Benefit payments exceeded property tax receipts.
- The Debt Service Fund cash balance has a deficit of \$<41,405> after disbursements for the year and increase in property tax receipts was used to fund prior year's deficit.
- The Road Use tax fund has a deficit balance of \$<57,344> which was created because of project expenditures which were made ahead of receipts. The receipt of future revenues will be used to offset the deficit.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$43,345.
- The Sewer Fund cash balance increased \$33,545.
- The Sanitation cash balance increased \$17,060.
- No transfers were made to fund other city funds.

## DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$2,665,059 in bonds and other long-term debt, compared to approximately \$2,667,262 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	<u>2006</u>	<u>2005</u>
General obligation bonds	835,603	741,445
Revenue notes	<u>1,829,456</u>	<u>1,925,817</u>
Total	2,665,059	2,667,262

The City's outstanding general obligation debt of \$835,603 is below its constitutional debt limit of \$3.1 million.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

City of Colfax's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2006 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slow residential housing market and modest increases in energy prices in 2006-2007.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$2.5 million, a slight increase over the final 2007 budget. Budgeted disbursements are expected to remain fairly similar. The City has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by the close of 2007.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kathy L. Mathews, City Clerk, 15 E Howard, Colfax, Iowa.

City of Colfax, Iowa  
Statement of Activities and Net Assets – Cash Basis  
As of and for the year ended June 30, 2006

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 376,397	\$ 134,192	\$ -	\$ -
Public works	326,697	-	186,122	-
Health and social services	-	-	-	-
Culture and recreation	180,711	39,727	-	-
Community and economic development	3,000	-	-	-
General government	272,783	19,277	-	-
Debt service	172,458	-	-	-
Total governmental activities	1,332,046	193,196	186,122	-
Business Type Activities				
Water	275,193	302,424	-	-
Sewer	408,923	332,468	-	-
Sanitation	121,465	138,525	-	-
Total business type activities	805,581	773,417	-	-
Total	\$ 2,137,627	\$ 966,613	\$ 186,122	\$ -

General Receipts

Property tax levied for

    General purposes

    Tax increment financing

    Debt service

Local option sales tax

Hotel/motel tax

Unrestricted interest on investments

Bond Proceeds

Repayment of TIF debt

Miscellaneous

    Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash basis net assets

    Restricted (Deficit)

        Streets

        Debt service

        Other purposes

    Unrestricted (deficit)

        Total cash basis net assets

*There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.*

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Governmental Activities	Business Type Activities	Total
\$	(242,205)	\$ -	\$ (242,205)
	(140,575)	-	(140,575)
	-		-
	(140,984)	-	(140,984)
	(3,000)	-	(3,000)
	(253,506)	-	(253,506)
	(172,458)	-	(172,458)
	(952,728)	-	(952,728)
	-	27,231	27,231
	-	(76,455)	(76,455)
	-	17,060	17,060
	-	(32,164)	(32,164)
\$	(952,728)	\$ (32,164)	\$ (984,892)
	400,995	-	400,995
	16,114	-	16,114
	128,105	-	128,105
	27,571		27,571
	40,715	-	40,715
	14,512	-	14,512
	122,500	110,000	232,500
	(16,114)	16,114	-
	351,557	-	351,557
	1,085,955	126,114	1,212,069
	133,227	93,950	227,177
	(173,085)	1,410,527	1,237,442
\$	(39,858)	\$ 1,504,477	\$ 1,464,619
	(57,344)	\$ -	\$ (57,344)
	(41,405)	-	(41,405)
	259,086	-	259,086
	(200,195)	1,504,477	1,304,282
\$	(39,858)	\$ 1,504,477	\$ 1,464,619

City of Colfax, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2006

	Special Revenue			
	General	Road Use Tax	Local Option SalesTax	Hotel/Motel Tax
<b>Receipts</b>				
Property Taxes	\$ 270,971	\$ -	\$ -	\$ -
Tax Increment Financing Collections	-	-	-	-
Other City Tax	-	-	297,571	40,718
Licenses and Permits	19,277	-	-	-
Use of Money and Property	11,253	-	1,168	302
Intergovernmental	21,763	186,122	-	-
Charges for Services	140,273	-	-	-
Miscellaneous	90,557	-	-	-
Total Receipts	<u>554,094</u>	<u>186,122</u>	<u>298,739</u>	<u>41,020</u>
<b>Disbursements</b>				
Operating				
Public Safety	313,296	-	-	-
Public Works	-	314,304	-	-
Culture and Recreation	154,080	-	100	10,030
Community and Economic Development	-	-	-	3,000
General Government	244,240	-	-	-
Debt Service	-	-	-	-
Total Disbursements	<u>711,616</u>	<u>314,304</u>	<u>100</u>	<u>13,030</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(157,522)</u>	<u>(128,182)</u>	<u>298,639</u>	<u>27,990</u>
<b>Other financing sources (uses)</b>				
Bond proceeds	-	122,500	-	-
Repayment of TIF debt	-	-	-	-
Operating transfers in	196,532	-	-	-
Operating transfers out	-	-	(169,386)	(25,359)
Total other financing sources (uses)	<u>196,532</u>	<u>122,500</u>	<u>(169,386)</u>	<u>(25,359)</u>
Net change in cash balances	<u>39,010</u>	<u>(5,682)</u>	<u>129,253</u>	<u>2,631</u>
Cash balance (deficit) - beginning of year	<u>(239,205)</u>	<u>(51,662)</u>	<u>56,590</u>	<u>22,389</u>
Cash balance (deficit) - end of year	<u>\$ (200,195)</u>	<u>\$ (57,344)</u>	<u>\$ 185,843</u>	<u>\$ 25,020</u>
<b>Cash basis fund balances (deficit)</b>				
Unreserved				
Debt service	\$ -	\$ -	\$ -	\$ -
General fund	(200,195)	-	-	-
Special revenue funds	-	(57,344)	185,843	25,020
Permanent fund	-	-	-	-
Total cash basis fund balances (deficit)	<u>\$ (200,195)</u>	<u>\$ (57,344)</u>	<u>\$ 185,843</u>	<u>\$ 25,020</u>

*The accompanying notes to financial statements are an integral part of this statement.*

<u>Special Revenue</u>		Other Nonmajor Governmental		
Employee Benefits	Debt Service	Funds	Total	
\$ 130,024	\$ 128,105	\$ -	\$ 529,100	
-	-	16,114	16,114	
-	-	-	338,289	
-	-	-	19,277	
-	2	1,787	14,512	
-	-	-	207,885	
-	-	-	140,273	
-	-	2,880	93,437	
130,024	128,107	20,781	1,358,887	
63,101	-	-	376,397	
12,393	-	-	326,697	
16,501	-	-	180,711	
-	-	-	3,000	
28,543	-	-	272,783	
-	172,458	-	172,458	
120,538	172,458	-	1,332,046	
9,486	(44,351)	20,781	26,841	
-	-	-	122,500	
-	-	(16,114)	(16,114)	
-	-	-	196,532	
-	-	(1,787)	(196,532)	
-	-	(17,901)	106,386	
9,486	(44,351)	2,880	133,227	
(28,553)	2,946	64,410	(173,085)	
\$ (19,067)	\$ (41,405)	\$ 67,290	\$ (39,858)	
\$ -	\$ (41,405)	\$ -	\$ (41,405)	
-	-	-	(200,195)	
(19,067)	-	2,200	136,652	
-	-	65,090	65,090	
\$ (19,067)	\$ (41,405)	\$ 67,290	\$ (39,858)	

City of Colfax, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2006

	Water	Sewer	Sanitation	Total
Operating receipts				
Use of money and property	\$ 12,574	\$ 755	\$ 328	\$ 13,657
Charges for service	289,850	331,713	138,197	759,760
Total operating receipts	302,424	332,468	138,525	773,417
Operating disbursements				
Business type activities	275,193	249,273	121,465	645,931
Excess of operating receipts over operating disbursements	27,231	83,195	17,060	127,486
Non-operating receipts (disbursements)				
Repayment of TIF debt	16,114	-	-	16,114
General obligation bond proceeds	-	110,000	-	110,000
Debt service	-	(159,650)	-	(159,650)
Total non-operating receipts (disbursements)	16,114	(49,650)	-	(33,536)
Net change in cash balances	43,345	33,545	17,060	93,950
Cash balances - beginning of year	943,577	393,339	73,611	1,410,527
Cash balances - end of year	\$ 986,922	\$ 426,884	\$ 90,671	\$ 1,504,477
Cash basis fund balances				
Reserved for debt service	\$ 673,453	\$ 73,105	\$ -	\$ 746,558
Unreserved	313,469	353,779	90,671	757,919
Total cash basis fund balances	\$ 986,922	\$ 426,884	\$ 90,671	\$ 1,504,477

City of Colfax, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Fiduciary Funds  
As of and for the Year Ended June 30, 2006

	<u>Library Memorials</u>	<u>Tenant Memorial</u>	<u>Stage Project</u>
Receipts			
Donations	\$ -	\$ -	\$ 74,784
Investment earnings - interest	<u>-</u>	<u>3,743</u>	<u>-</u>
Total receipts	<u>-</u>	<u>3,743</u>	<u>74,784</u>
Disbursements			
Operating			
Cultural and recreation	<u>286</u>	<u>5,000</u>	<u>66,800</u>
Total Disbursements	<u>286</u>	<u>5,000</u>	<u>66,800</u>
Excess of receipts over disbursements	<u>(286)</u>	<u>(1,257)</u>	<u>7,984</u>
Cash balance - beginning of year	13,393	52,702	-
Cash balance - end of year	<u><u>\$ 13,107</u></u>	<u><u>\$ 51,445</u></u>	<u><u>\$ 7,984</u></u>

CITY OF COLFAX, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1/ Summary of Significant Accounting Policies

The City of Colfax is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Jasper County Assessor's Conference Board, Selective Enforcement Response Team and Safety Coalition of Central Iowa Cities, Jasper County Animal Rescue League and Humane Society and Central Iowa Committee.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax is used to account for the City's sales tax receipts and the disbursements financed by such.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

The City of Colfax maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

C. Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the Public Safety, Public Works, Culture and Recreation, General Government, and Debt Service functions.

2/ Cash and Pooled Investments

The City's deposits at June 30, 2006 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City.

### 3/ Notes Payable

The annual debt service requirement to maturity for general obligation notes, and the sewer revenue notes is as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Notes		Total Annual Debt Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	94,274	30,278	98,244	60,820	192,518	91,098
2008	136,843	34,150	102,211	57,378	239,054	91,528
2009	139,559	28,075	105,240	53,785	244,799	81,860
2010	142,401	21,876	109,335	50,067	251,736	71,943
2011	145,385	15,537	112,498	46,191	257,883	61,728
2012	107,497	9,056	116,736	42,182	224,233	51,238
2013	51,554	2,846	121,052	38,006	172,606	40,852
2014	12,080	920	125,452	33,658	137,532	34,578
2015	6,010	371	107,688	29,132	113,698	29,503
2016			108,000	24,930	108,000	24,930
2017			112,000	21,690	112,000	21,690
2018			115,000	18,330	115,000	18,330
2019			118,000	14,880	118,000	14,880
2020			122,000	11,340	122,000	11,340
2021			126,000	7,680	126,000	7,680
2022			130,000	3,900	130,000	3,900
Totals	<u>\$ 835,603</u>	<u>\$ 143,109</u>	<u>\$ 1,829,456</u>	<u>\$ 513,969</u>	<u>\$ 2,665,059</u>	<u>\$ 657,078</u>

The resolutions providing for the issuance of the sewer revenue notes include the following provisions.

- a. The bonds will only be redeemed from the future earnings of the sewer activity and the note holders hold a lien on the future earnings of the sewer fund.
- b. Sufficient monthly transfers shall be made to a separate revenue bond sinking account for the purpose of making the next bond principal and interest payments.

The City has established the sinking and reserve funds required by the above resolutions.

### 4/ Tax Increment Financing

In 1988, 1991, and 1999, the City established three urban renewal districts and made agreements with the county and school, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes, as a result of the incremental property tax valuation in those districts.

The taxes so collected are paid into the City's Special Revenue Fund and are to be expended for project costs or debt service associated with the projects affecting the districts. In prior years, the taxes received were not sufficient to pay the debt service. Consequently, the water fund advanced \$77,269 toward debt service. In accordance with the Iowa Code, these advances may now be repaid from the tax increment revenues since the 1999 general obligation refunding note has been retired. During the year, \$16,114 was repaid on this intrafund debt. At June 30, 2006, the balance due is \$61,155.

4/ Tax Increment Financing (continued)

In July 2001, the City and Jasper County entered into a 28E agreement to develop the Colfax I-80 Interchange Urban Renewal Project area. The City extended its water and sanitary sewer service to the area. By June 30, 2006, the County had loaned the City \$1,197,501 for the extension costs and \$80,175 to reimburse engineering costs. The County shall collect and retain all tax increment revenues collected from the taxable properties located in the area. If upon maturity of the loan, the revenue collected is not sufficient to fully reimburse the County for all the principal and interest paid by the County, on its loan for this specific purpose, the City will be obligated to repay the unpaid balance plus interest at the rate then being paid by the County on its loan. Since the repayment is contingent on future taxes paid in the Urban Renewal Project area, the amounts of the payments are not readily determinable.

5/ Pension and Retirement Benefits

IPERS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$31,910, \$30,398, and \$29,122, respectively, equal to the required contributions for each year.

6/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2006. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, was \$14,000.

7/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,853 during the year ended June 30, 2006.

8/ Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

#### 10/ Deficit Fund Balances

At June 30, 2006 the General, Road Use Tax, Employee Benefits, and Debt Service Funds had deficit balances of \$200,915, \$57,344, \$19,067, and \$41,405, respectively. The deficit in the General Fund will be reduced by transfers from the Proprietary Fund operating accounts. The deficit in the Employee Benefit and Debt Service Funds will be reduced by increasing property tax levies in subsequent years. The deficit in the Road Use Tax Fund was created because project expenditures were made ahead of receipts. Future receipts will be used to offset the deficit.

#### 11/ Economic Development Loan

With funds from the Iowa Department of Economic Development, the City loaned \$150,000 to a local manufacturing company which employs 40 people. The loan is forgivable to the extent of \$75,000 and repayment is expected on the \$75,000 balance. Principal payment are to be received over 5 years and there is no interest due. Any repayment is to be used by the City for similar projects.

City of Colfax, Iowa  
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property Taxes	\$ 529,100	\$ -
Tax increment financing collections	16,114	-
Other city tax	338,289	-
Licenses and permits	19,277	-
Use of money and property	14,512	13,657
Intergovernmental	207,885	-
Charges for Service	140,273	759,760
Special assessments	-	-
Miscellaneous	93,437	-
Total Receipts	<u>1,358,887</u>	<u>773,417</u>
Disbursements		
Public safety	376,397	-
Public works	326,697	-
Health and social services	-	-
Culture and recreation	180,711	-
Community and economic development	3,000	-
General government	272,783	-
Debt service	172,458	159,650
Business type activities	-	645,931
Total Disbursements	<u>1,332,046</u>	<u>805,581</u>
Excess (deficiency) of receipts over (under) disbursements	<u>26,841</u>	<u>(32,164)</u>
Other financing (uses) net	<u>106,386</u>	<u>126,114</u>
Excess (deficiency) of receipts over disbursements and other financing uses	<u>133,227</u>	<u>93,950</u>
Balance (deficit) - beginning of year	<u>(173,085)</u>	<u>1,410,527</u>
Balance (deficit) - end of year	<u>\$ (39,858)</u>	<u>\$ 1,504,477</u>

*See accompanying independent auditors' report.*

Budgeted Amounts			
Net	Original	Final	Final to Net Variance
\$ 529,100	\$ 504,973	\$ 504,973	\$ 24,127
16,114	9,100	9,100	7,014
338,289	241,804	301,804	36,485
19,277	15,000	15,000	4,277
28,169	1,000	1,000	27,169
207,885	190,000	190,000	17,885
900,033	829,200	829,200	70,833
-	3,000	3,000	(3,000)
93,437	20,000	20,000	73,437
2,132,304	1,814,077	1,874,077	258,227
376,397	348,637	365,047	(11,350)
326,697	202,900	322,900	(3,797)
-	1,000	1,000	1,000
180,711	143,710	161,010	(19,701)
3,000	3,100	11,474	8,474
272,783	263,100	263,100	(9,683)
332,108	125,103	125,103	(207,005)
645,931	682,400	688,750	42,819
2,137,627	1,769,950	1,938,384	(199,243)
(5,323)	44,127	(64,307)	58,984
232,500	-	423,624	(191,124)
227,177	44,127	359,317	(132,140)
1,237,442	6,017,626	6,017,626	(4,780,184)
\$ 1,464,619	\$ 6,061,753	\$ 6,376,943	\$ (4,912,324)

City of Colfax, Iowa  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2006

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$168,434. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the Public Safety, Public Works, Culture and Recreation, General Government, and Debt Service functions.

City of Colfax, Iowa  
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances  
Nonmajor Governmental Funds  
As of and for the year ended June 30, 2006

	Special Revenue		Permanent	
	Urban Renewal		Cemetery	
	Tax Increment	CDBG	Perpetual Care	Total
Receipts				
Property tax - tax increment financing	\$ 16,114	\$ -	\$ -	\$ 16,114
Use of money and property	-	-	1,787	1,787
Miscellaneous	-	2,200	680	2,880
Total Receipts	<u>16,114</u>	<u>2,200</u>	<u>2,467</u>	<u>20,781</u>
Other financing uses				
Repayment of TIF Debt	(16,114)	-	-	(16,114)
Operating transfers out	<u>-</u>	<u>-</u>	<u>(1,787)</u>	<u>(1,787)</u>
Total other financing uses	<u>(16,114)</u>	<u>-</u>	<u>(1,787)</u>	<u>(17,901)</u>
Net change in cash balances	-	2,200	680	2,880
Cash balance - beginning of year	-	-	64,410	64,410
Cash balance - end of year	<u>\$ -</u>	<u>\$ 2,200</u>	<u>\$ 65,090</u>	<u>\$ 67,290</u>
Cash basis fund balances				
Unreserved				
Special revenue funds	\$ -	\$ 2,200	\$ -	\$ 2,200
Permanent fund	-	-	65,090	65,090
Total cash basis fund balances	<u>\$ -</u>	<u>\$ 2,200</u>	<u>\$ 65,090</u>	<u>\$ 67,290</u>

*See accompanying independent auditors' report.*

City of Colfax, Iowa  
Schedule of Indebtedness  
For the year ended June 30, 2006

			Amount Originally Issued
Obligation	Date of Issue	Interest Rates	
General Obligation Notes			
Fire Station and Park Project	March 2, 1998	5.00%	\$ 400,000
City Hall Note	April 1, 2002	5.00%	35,000
South Sewer	April 14, 2003	3.50%	400,000
Corporate Purpose Note	August 15, 2001	5.00%	150,000
Municipal Swimming Pool Repairs and Improvements to City Park, Ball Fields, and Tennis Courts			
Lake Street Sewer	October 1, 2004	4.50%	100,000
Corporate Purpose Note			
Sewer Equipment and Streetsweeper Totals	September 15, 2005	4.50%	232,500
Revenue Notes			
Sewer Revenue Bonds	March 15, 2003	3.00%	\$ 1,910,000
Sewer Revenue Note	May 8, 2001	6.25%	250,000
Totals			

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 190,543	\$ -	\$ 26,406	\$ 164,137	\$ 9,656	\$ -
24,500	-	3,500	21,000	1,225	-
320,000	-	80,000	240,000	10,644	-
106,402	-	17,563	88,839	5,140	-
100,000	-	10,873	89,127	7,452	-
-	232,500	-	232,500	120	-
<u>\$ 741,445</u>	<u>\$ 232,500</u>	<u>\$ 138,342</u>	<u>\$ 835,603</u>	<u>\$ 34,237</u>	<u>\$ -</u>
\$ 1,755,000	\$ -	\$ 81,000	\$ 1,674,000	\$ 52,650	\$ -
170,817	-	15,361	155,456	10,639	-
<u>\$ 1,925,817</u>	<u>\$ -</u>	<u>\$ 96,361</u>	<u>\$ 1,829,456</u>	<u>\$ 63,289</u>	<u>\$ -</u>

City of Colfax, Iowa  
Note Maturities  
For the year ended June 30, 2006

	Fire Station and Park		City Hall		South Sewer	
	Issued March 2, 1998		Issued April 1, 2002		Issued April 14, 2003	
Year Ending June 30,	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
2007	5.00	27,727	5.00	3,500	3.50	-
2008	5.00	29,113	5.00	3,500	3.50	40,000
2009	5.00	30,569	5.00	3,500	3.50	40,000
2010	5.00	32,097	5.00	3,500	3.50	40,000
2011	5.00	33,702	5.00	3,500	3.50	40,000
2012	5.00	10,929	5.00	3,500	3.50	40,000
2013					3.50	40,000
2014						
2015						
Totals		<u>\$ 164,137</u>		<u>\$ 21,000</u>		<u>\$ 240,000</u>

Sewer and Streetsweeper			
Issued September 15, 2005			
Year Ending June 30,	Interest Rates (%)	Amount	Total General Obligations
2007	4.65	38,750	94,274
2008	4.65	38,750	136,843
2009	4.65	38,750	139,559
2010	4.65	38,750	142,401
2011	4.65	38,750	145,385
2012	4.65	38,750	107,497
2013			51,554
2014			12,080
2015			6,010
Totals		<u>\$ 232,500</u>	<u>\$ 835,603</u>

*See accompanying independent auditors' report.*

Pool and Park		Lake Street Sewer	
Issued August 15, 2001		Issued October 1, 2004	
Interest Rates (%)	Amount	Interest Rates (%)	Amount
5.00	15,450	4.50	8,847
5.00	16,240	4.50	9,240
5.00	17,070	4.50	9,670
5.00	17,944	4.50	10,110
5.00	18,863	4.50	10,570
5.00	3,272	4.50	11,046
		4.50	11,554
		4.50	12,080
		4.50	6,010
	<u>\$ 88,839</u>		<u>\$ 89,127</u>

Sewer Revenue Notes			Sewer Revenue Bonds		
Issued May 8, 2000			Issued March 15, 2003		
Year Ending June 30,	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Total Sewer Notes & Bonds
2007	6.25	15,244	3.00	83,000	98,244
2008	6.25	16,211	3.00	86,000	102,211
2009	6.25	17,240	3.00	88,000	105,240
2010	6.25	18,335	3.00	91,000	109,335
2011	6.25	19,498	3.00	93,000	112,498
2012	6.25	20,736	3.00	96,000	116,736
2013	6.25	22,052	3.00	99,000	121,052
2014	6.25	23,452	3.00	102,000	125,452
2015	6.25	2,688	3.00	105,000	107,688
2016	6.25	-	3.00	108,000	108,000
2017	6.25	-	3.00	112,000	112,000
2018	6.25	-	3.00	115,000	115,000
2019	6.25	-	3.00	118,000	118,000
2020	6.25	-	3.00	122,000	122,000
2021	6.25	-	3.00	126,000	126,000
2022	6.25	-	3.00	130,000	130,000
Totals		<u>\$ 155,456</u>		<u>\$ 1,674,000</u>	<u>\$ 1,829,456</u>

City of Colfax, Iowa  
Schedule of Receipts by Source and Disbursements by Function  
All Government Funds  
As of and for the year ended June 30, 2006

	2006	2005	2004
Receipts			
Property taxes	\$ 529,100	\$ 557,068	\$ 504,922
Tax increment financing collections	16,114	17,510	21,114
Other city tax	338,289	181,448	12,802
Licenses and permits	19,277	15,622	23,828
Use of money and property	14,512	5,579	8,087
Intergovernmental	207,885	196,590	409,494
Charges for service	140,273	197,131	179,847
Miscellaneous	93,437	119,495	96,512
Total	<u>\$ 1,358,887</u>	<u>\$ 1,290,443</u>	<u>\$ 1,256,606</u>
Disbursements			
Operating			
Public safety	\$ 376,397	\$ 512,601	\$ 349,459
Public works	326,697	284,064	266,345
Health and social services	-	6,182	-
Culture and recreation	180,711	167,381	215,444
Community and economic development	3,000	3,001	246,697
General government	272,783	284,583	300,788
Debt service	172,458	122,653	181,621
Total	<u>\$ 1,332,046</u>	<u>\$ 1,380,465</u>	<u>\$ 1,560,354</u>

*See accompanying independent auditors' report.*

# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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### INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and  
Members of the City Council

We have audited the financial statements of the City of Colfax, Iowa as of and for the year ended June 30, 2006, and have issued our report thereon as dated below. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting.

We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item II-A-06.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described in the Schedule of Findings are material weaknesses. Prior year reportable conditions have been resolved except for items I-A-06.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Colfax and other parties to whom the City of Colfax may report. This report is intended to be and should not be used by anyone other than these specified parties.

December 11, 2006

*Pollard and Company P.C.*

CITY OF COLFAX, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, signing, mailing journalizing and posting.
- (3) Payroll preparation and distribution.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will continue to review the internal control procedures and segregate duties to the extent possible with the hiring of new personnel in June 2006.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-06 Certified Budget

Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the Public Safety, Public Works, Culture and Recreation, General Government and Debt Service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

The budget will be amended in the future, if applicable.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting (continued)

II-B-06 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense

We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

II-D-06 Business Transactions

Business transactions between the City and City officials or employees are as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bryan Poulter, Council Member, Swimming Pool Manager	Swimming Pool Manager Wages	\$2,499
Kent Deal, Council Member	Computer Repairs	\$74
Elizabeth Wheeler, Council Member	Temporary Help	\$280

In accordance with Chapter 362.5(10) of the Code of Iowa, these transactions do not appear to be a conflict of interest, since the duties of the function are not incompatible with duties as Council Members.

II-E-06 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-06 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-06 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-06 Financial Condition

The General, Road Use Tax, Employee Benefit, and Debt Service Funds had deficit balances at June 30, 2006 of \$200,915, \$57,344, \$19,067, and \$41,405, respectively.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response

Note 10 of the financial statements indicates the City's plans to eliminate the deficits.

Conclusion

Response accepted.